

**CITY OF MCKENZIE, TENNESSEE**

Annual Financial Report

For the Year Ended June 30, 2015

# CITY OF MCKENZIE, TENNESSEE

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# INTRODUCTORY SECTION

# **CITY OF MCKENZIE, TENNESSEE**

Officials of the City of McKenzie, Tennessee

June 30, 2015

Name

Title

Elected Officials:

Jill Holland

Mayor

Gene Hale

Vice Mayor

Charles Pruneau

Council member

David Hochreiter

Council member

Kevin Gallimore

Council member

Cassie Allen

Council member

Jessie Townes

Council member

Management:

Charlie Beal

City Clerk/Recorder

# FINANCIAL SECTION

**JOHN R. POOLE, CPA**  
**CERTIFIED PUBLIC ACCOUNTANT**

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134 NORTHLAKE DRIVE  
HENDERSONVILLE, TN 37075

(615) 822-4177

**Independent Auditor's Report**

Mayor and Board of Council of the  
City of McKenzie, Tennessee  
McKenzie, Tennessee

**Report on the Financial Statements**

I have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund of the City of McKenzie, Tennessee as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

My responsibility is to express opinions on these financial statements based on my audit. I conducted the audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for the audit opinions.

**Opinions**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business - type activities, and each major fund of the City of McKenzie, Tennessee as of June 30, 2015, and the respective changes in financial position and, where applicable, the cash flows thereof and the respective budgetary comparison for the General Fund, Solid Waste Fund, and the Drug Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters -Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Required Supplementary Information which includes the Management's Discussion and Analysis and the Schedule of Schedule of Changes in Net Pension Liability (Asset) and the Schedule of Contributions to the Employee Pension Plan be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements and other knowledge we obtained during the audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

### **Other Matters -Other Information**

The audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Introductory Section and the Supplementary Information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Introductory Section and the Supplementary Information (except for the Schedule of Unaccounted for Water) have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Introductory Section and the Supplementary Information (except for the Schedule of Unaccounted for Water), is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Schedule of Unaccounted for Water has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on them.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, I have also issued my report dated October 31, 2015 on the consideration of the City of McKenzie's internal control over financial reporting and the tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of the testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.

*Joh R Poole, CPA*

October 31, 2015



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of McKenzie, Tennessee, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2015.

### FINANCIAL HIGHLIGHTS

- The assets of the City of McKenzie exceeded its liabilities at the close of the most recent fiscal year by \$13.2 million (*net position*).
- As of the close of the current fiscal year, the City of McKenzie's general fund reported an ending fund balance of \$1.231 million, a decrease of \$506 thousand in comparison with the prior year. Of the total fund balance, 62.60% is available for spending at the City of McKenzie's discretion (*unassigned fund balance*).
- The City of McKenzie's total debt obligations decreased by \$178 thousand during the year, due to principal reductions on outstanding debt.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of the following components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

This report also contains other required supplementary information in addition to the basic financial statements themselves.

#### Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of McKenzie's finances, in a manner similar to a private-sector business.

- The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes, compensated absences, etc.).

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, and health, welfare, and recreation. The business-type activities of the City include a water and sewer system. Refer to the table of contents for the location of the government-wide financial statements in this report.

#### Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. For audit reporting purposes, the City has three governmental funds and a proprietary fund.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont.)

**Governmental funds** - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the focus is on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources at the end of the fiscal year. Such information may be useful in evaluating the Government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the Balance Sheet - Governmental Funds and the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. Refer to the table of contents for the location of the governmental fund financial statements and reconciliations in this report.

The City maintains three governmental funds for audit reporting purposes. Information is presented separately in the Balance Sheet - Governmental Funds and in the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds for the three governmental funds – the General Fund, the Drug Fund, and the Solid Waste Fund.

The City adopts an annual appropriated budget for each governmental fund. Budgetary comparison statements have been provided in this report.

**Proprietary funds** - Proprietary funds are used to account for the business-type activities of the City. The measurement focus is the same as for the government-wide financial statements. The City has one proprietary fund, the Water and Sewer Fund.

### Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. Refer to the table of contents for the location of the notes to the financial statements in this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

**Statement of Net Position** - As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$13.2 million at the close of the most recent fiscal year. The largest portion of the City's net position (75.72%) representing net investment in capital assets are capital assets used to provide services to citizens.

The remaining balance of net position (24.28%) represents unrestricted net position and restricted net position for the drug fund and the solid waste fund, with the majority (22.61%) representing unrestricted net position. This unrestricted net position may be used to meet the City of McKenzie's ongoing obligations to citizens and creditors.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont.)**

	<u>2015</u>	<u>2014</u>
Current and other assets	\$ 5,304,005	\$ 5,006,935
Capital assets	<u>11,736,285</u>	<u>10,757,822</u>
Total assets	<u>17,040,290</u>	<u>15,764,757</u>
Current liabilities	368,048	335,005
Long-term liabilities	1,643,995	1,829,575
Other liabilities	<u>976,690</u>	<u>505,068</u>
Total liabilities	<u>2,988,733</u>	<u>2,669,648</u>
Deferred inflow of resources	<u>848,661</u>	<u>743,689</u>
Net position:		
Invested in capital assets, net of related debt	9,997,440	8,840,977
Restricted - Drug & Solid Waste Funds	220,843	185,831
Unrestricted	<u>2,984,613</u>	<u>3,324,612</u>
Total net position	<u>\$ 13,202,896</u>	<u>\$ 12,351,420</u>

During the current fiscal year, the City's net position increased by \$851 thousand. This increase was due primarily to an increase in capital assets with grant proceeds.

The increase in capital assets was due to the acquisition of capital assets with grant and loan proceeds net of current year depreciation. The increase in other liabilities was due to booking the net pension position starting this year due to GASB 68 and 71..

**Statement of Activities** - Revenues in governmental activities exceeded expenditures by \$1.05 million. Revenues in business-type activities exceeded expenses by \$56 thousand.

	<u>2015</u>	<u>2014</u>
Revenues:		
Program revenues:		
Charges for services	\$ 2,265,739	\$ 2,155,948
Operating grants and contributions	186,234	181,795
Capital grants and contributions	1,128,232	692,915
General revenues:		
Other taxes	2,487,028	2,474,497
Other sources	<u>41,098</u>	<u>743,297</u>
Total revenues	<u>\$ 6,108,331</u>	<u>\$ 6,248,452</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont.)

Expenses:	2015	2014
General government	\$ 519,951	\$ 1,313,601
Public Safety	1,652,148	1,647,093
Public Works	1,067,699	1,127,519
Health, Welfare, and Recreation	278,778	280,131
Water and Sewer	1,481,772	1,432,996
Total expenses	<u>5,000,348</u>	<u>5,801,340</u>
Net income	<u>1,107,983</u>	<u>447,112</u>
Increase in net assets		
Net assets - beginning	12,351,420	11,845,742
Restate beginning net assets	<u>(256,507)</u>	<u>58,566</u>
Net assets - ending	<u>\$ 13,202,896</u>	<u>\$ 12,351,420</u>

The decrease in revenues was primarily due to the loan proceeds last year less the increase in grants received this year. The decrease in expenses was primarily due to the grant expenses and large payment on debt last year.

### FUND FINANCIAL STATEMENTS ANALYSIS

**Governmental funds** - The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Government's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund accounts for 90.70% of governmental fund revenues. Accordingly this discussion will focus on the general fund. General fund balance was \$1.231 million at the end of the current fiscal year. 62.60% of the balance is available to meet the day-to-day needs of the City.

Revenues in the general fund were up this year primarily due to the increase in grant revenues. The expenditures were down primarily due to the decrease in grant expenses and payments on debt.

All other revenues were within reasonable variances from last year. A budget comparison statement has been provided to demonstrate compliance with the budget.

**Proprietary funds** - The City of McKenzie has one proprietary fund, the Water and Sewer Fund. Revenues decreased slightly from last year by \$7.8 thousand. The most significant change in the water and sewer fund was the decrease in grant proceeds for the current year.

**Budgetary highlights** - The City did not make any revisions to the original appropriations approved by the City Council.

- Actual revenues for the General Fund were under the budgeted revenues by \$485 thousand, due to the delayed receipt of additional grant funds that were already included in the budget.
- Actual expenditures for the General Fund were under the budgeted by \$706 thousand, due to the grant-related expenses related to the above revenues.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont.)

### CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital assets** - At the end of Fiscal Year 2015, the City had invested \$11.74 million net of accumulated depreciation in a variety of capital assets. As allowed by GASB Statement No. 34, the City reported original infrastructure (streets, sidewalks, bridges, etc.). Additional information on the City's capital assets is included in the notes to financial statements found in this report.

**Long-term debt** - At the end of the current fiscal year, the City of McKenzie had total debt outstanding of \$2.22 million. The total amount was backed by the full faith and credit of the City of McKenzie. Additional information on the City of McKenzie's long-term debt is included in the notes to financial statements found in this report.

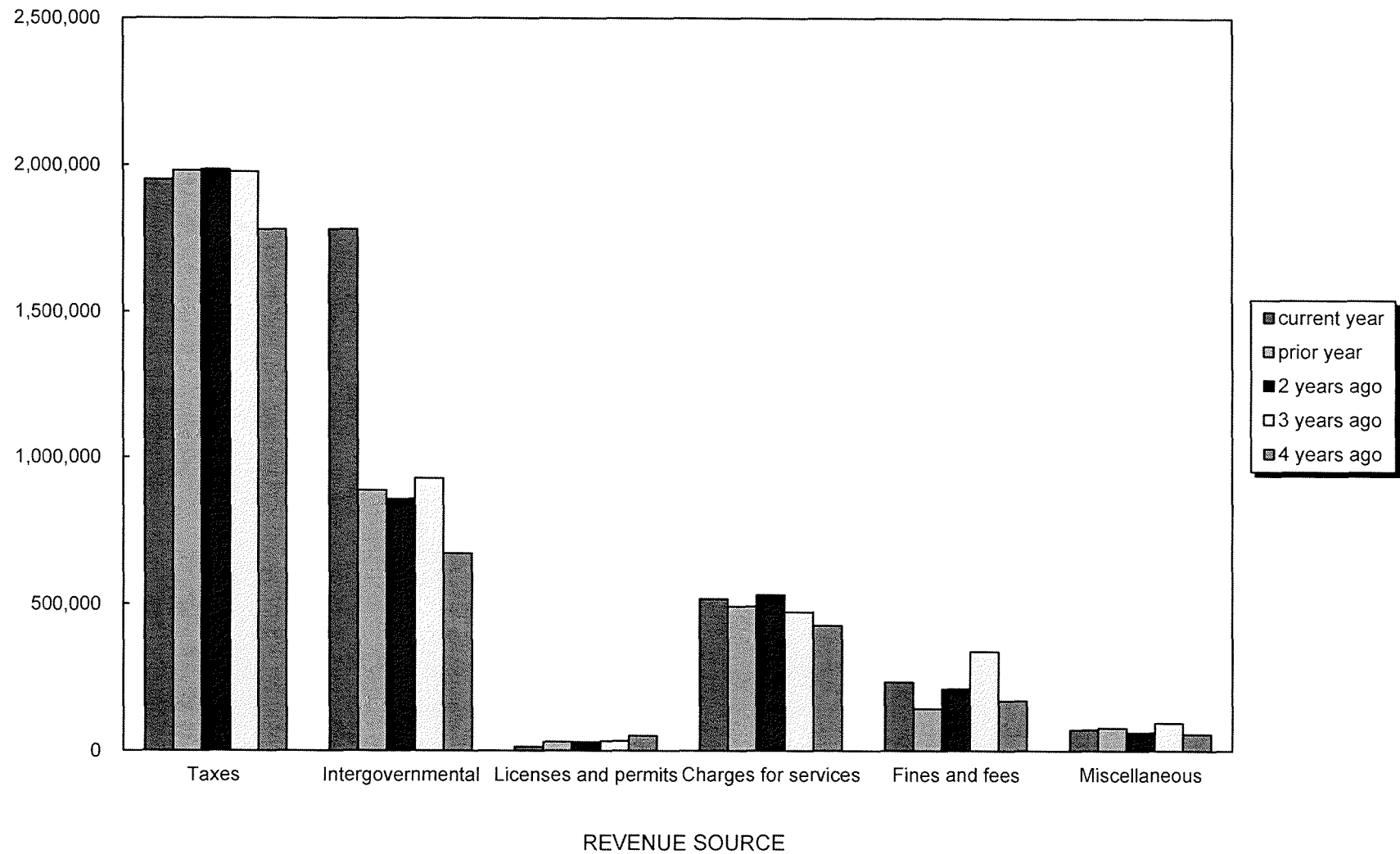
### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City has no significant changes expected for the next fiscal year, except the continuing effects from the current economic conditions and the resulting possible decrease in expected revenues.

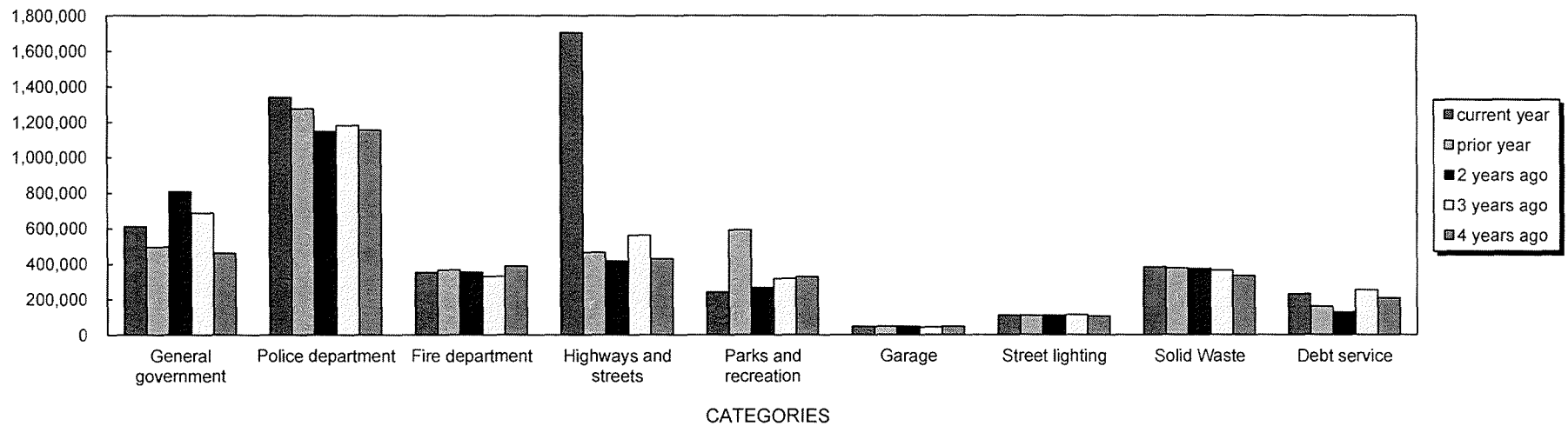
### REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of McKenzie's finances for citizens, taxpayers, customers, investors, creditors and all others with an interest in the City of McKenzie's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Recorder, City of McKenzie, P.O. Box 160, McKenzie, TN 38201.

# **CITY OF MCKENZIE GOVERNMENTAL FUND REVENUES**



# **CITY OF MCKENZIE GOVERNMENTAL FUND EXPENDITURES**





# BASIC FINANCIAL STATEMENTS

**CITY OF MCKENZIE, TENNESSEE**

**Statement of Net Position**

**June 30, 2015**

<u>Assets and Deferred Outflows</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Cash and cash equivalents	1,227,387	2,236,112	3,463,499
Certificate of deposit	0	100,000	100,000
Receivables	1,152,378	156,899	1,309,277
Internal balances	107,376	(107,376)	0
Prepaid expenses	24,075	9,099	33,174
Other assets	7,843	0	7,843
Deferred outflows	305,904	84,308	390,212
Capital assets not being depreciated	960,184	12,550	972,734
Capital assets, net of accumulated depreciation	4,274,809	6,488,742	10,763,551
Total Assets and Deferred Outflows	<u>8,059,956</u>	<u>8,980,334</u>	<u>17,040,290</u>
<u>Liabilities, Deferred Inflows, and Net Position</u>			
Liabilities			
Accounts payable	46,458	18,634	65,092
Accrued expenses	87,485	28,626	116,111
Accrued landfill closure costs	482,725	0	482,725
Customer deposits	0	91,995	91,995
Net pension position	389,873	104,092	493,965
Long-term liabilities:			
Due within one year	186,845	0	186,845
Due in more than one year	1,552,000	0	1,552,000
Total Liabilities	<u>2,745,386</u>	<u>243,347</u>	<u>2,988,733</u>
Deferred Inflows			
Deferred inflow of resources - property taxes	703,048	0	703,048
Deferred inflow of resources - pension	114,928	30,685	145,613
Total Deferred Inflows	<u>817,976</u>	<u>30,685</u>	<u>848,661</u>
Net Position:			
Net Investment in Capital Assets	3,496,148	6,501,292	9,997,440
Restricted - Solid Waste fund	164,708	0	164,708
Restricted - Drug fund	56,135	0	56,135
Unrestricted	779,603	2,205,010	2,984,613
Total Net Position	<u>4,496,594</u>	<u>8,706,302</u>	<u>13,202,896</u>

See accompanying notes to financial statements.

**CITY OF MCKENZIE, TENNESSEE**

**Statement of Activities**

**For the Year Ended June 30, 2015**

<u>Function/Programs</u>	<u>Program Revenues</u>				<u>Net (Expenses) Revenue and Changes in Net Position</u>		<u>Total</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
Government Activities:							
General government	519,951	51,923	20,045	0	(447,983)	0	(447,983)
Police department	1,270,168	260,599	16,108	0	(993,461)	0	(993,461)
Fire department	381,980	30,380	0	0	(351,600)	0	(351,600)
Streets and highways	507,332	0	150,081	1,088,477	731,226	0	731,226
Parks and recreation	278,778	3,075	0	0	(275,703)	0	(275,703)
City garage	51,333	0	0	0	(51,333)	0	(51,333)
Street lighting	110,196	0	0	0	(110,196)	0	(110,196)
Drug fund	7,688	14,267	0	0	6,579	0	6,579
Solid waste	391,150	410,930	0	0	19,780	0	19,780
Total Governmental Activities	<u>3,518,576</u>	<u>771,174</u>	<u>186,234</u>	<u>1,088,477</u>	<u>(1,472,691)</u>	<u>0</u>	<u>(1,472,691)</u>
Business - type Activities:							
Water and Sewer	1,481,772	1,494,565	0	39,755	0	52,548	52,548
Total Business Type Activities	<u>1,481,772</u>	<u>1,494,565</u>	<u>0</u>	<u>39,755</u>	<u>0</u>	<u>52,548</u>	<u>52,548</u>
 Total	<u>5,000,348</u>	<u>2,265,739</u>	<u>186,234</u>	<u>1,128,232</u>	<u>(1,472,691)</u>	<u>52,548</u>	<u>(1,420,143)</u>
 General Revenues:							
Property taxes					661,147	0	661,147
Public utility taxes					183,326	0	183,326
Sales taxes					1,235,488	0	1,235,488
Business taxes					101,391	0	101,391
Beer and mixed drink taxes					237,797	0	237,797
State income and excise taxes					67,879	0	67,879
Interest income					1,017	3,084	4,101
Other					36,997	0	36,997
Total general revenues					<u>2,525,042</u>	<u>3,084</u>	<u>2,528,126</u>
Changes in Net Position					<u>1,052,351</u>	<u>55,632</u>	<u>1,107,983</u>
Net Position - beginning of year					3,646,697	8,704,723	12,351,420
Restatement					(202,454)	(54,053)	(256,507)
Net Position - beginning of year, as restated					3,444,243	8,650,670	12,094,913
Net Position - ending of year					<u>4,496,594</u>	<u>8,706,302</u>	<u>13,202,896</u>

See accompanying notes to financial statements.

# FUND FINANCIAL STATEMENTS

**CITY OF MCKENZIE, TENNESSEE**

**Balance Sheet**

**Governmental Funds**

**June 30, 2015**

<u>Assets</u>	<u>General Fund</u>	<u>Drug Fund</u>	<u>Solid Waste Fund</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$985,810	\$56,135	\$185,442	\$1,227,387
Accounts receivable:				
Property taxes receivable	809,602	0	0	809,602
Other receivables	342,776	0	0	342,776
	<u>1,152,378</u>	<u>0</u>	<u>0</u>	<u>1,152,378</u>
Prepaid assets	<u>24,075</u>	<u>0</u>	<u>0</u>	<u>24,075</u>
Due from other funds	<u>99,608</u>	<u>0</u>	<u>102,674</u>	<u>202,282</u>
Other assets	<u>7,843</u>	<u>0</u>	<u>0</u>	<u>7,843</u>
 Total Assets	 <u>\$2,269,714</u>	 <u>\$56,135</u>	 <u>\$288,116</u>	 <u>\$2,613,965</u>
 <u>Liabilities, Deferred Inflows and Fund Balance</u>				
Liabilities:				
Accounts payable	\$20,679	\$0	\$25,779	\$46,458
Accrued expenses	84,762	0	2,723	87,485
Due to other funds	<u>0</u>	<u>0</u>	<u>94,906</u>	<u>94,906</u>
 Total Liabilities	 <u>105,441</u>	 <u>0</u>	 <u>123,408</u>	 <u>228,849</u>
Deferred Inflow of Resources:				
Deferred current property taxes	703,048	0	0	703,048
Deferred delinquent property taxes	106,485	0	0	106,485
Other deferred/unavailable- other governments	<u>123,418</u>	<u>0</u>	<u>0</u>	<u>123,418</u>
Total Deferred Inflow of Resources	<u>932,951</u>	<u>0</u>	<u>0</u>	<u>932,951</u>
Fund balance:				
Unassigned	770,852	0	0	770,852
Non-spendable	24,075	0	0	24,075
Assigned - debt service- Mayor	283,732	0	0	283,732
Assigned - public safety - Mayor	152,663	0	0	152,663
Restricted	<u>0</u>	<u>56,135</u>	<u>164,708</u>	<u>220,843</u>
Total Fund Balance	<u>1,231,322</u>	<u>56,135</u>	<u>164,708</u>	<u>1,452,165</u>
Total Liabilities, Deferred Inflows and Fund Balance	<u>\$2,269,714</u>	<u>\$56,135</u>	<u>\$288,116</u>	<u>\$2,613,965</u>

The notes accompanying the financial statements are an integral part of these financial statements.

**CITY OF MCKENZIE, TENNESSEE**

**Reconciliation of the Balance Sheet to the Statement of Net Position  
of Governmental Activities**

**June 30, 2015**

Amounts reported for fund balance - total governmental funds	\$ 1,452,165
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds	5,234,993
Pension related accounts - governmental funds do not record these post-benefit obligations	
Net pension position	(389,873)
Deferred outflow - pension	305,904
Deferred inflow - pension	(114,928)
Receivables not available to pay for current expenditures and therefore are deferred in the Government-wide financial statements	229,903
Long-term liabilities, including bonds payable and accrued contingencies are not due and payable in the current period and therefore are not recorded in the funds	
Accrued landfill closure costs	(482,725)
Long-term debt	<u>(1,738,845)</u>
Net Position of governmental activities	\$ <u><u>4,496,594</u></u>

See accompanying notes to financial statements.

**CITY OF MCKENZIE, TENNESSEE**

**Governmental Funds  
Statement of Revenues, Expenditures and Changes in Fund Balances**

**For the Year Ended June 30, 2015**

	<u>General Fund</u>	<u>Solid Waste Fund</u>	<u>Drug Fund</u>	<b>Total Governmental Funds</b>
Revenues:				
Taxes	1,951,171	0	0	1,951,171
Intergovernmental	1,781,239	0	0	1,781,239
Licenses and permits	14,361	0	0	14,361
Fines and fees	220,511	0	13,969	234,480
Charges for services	106,355	410,699	0	517,054
Miscellaneous	72,093	231	298	72,622
Total Revenues	<u>\$4,145,730</u>	<u>\$410,930</u>	<u>\$14,267</u>	<u>\$4,570,927</u>
Expenditures:				
Current:				
General government	531,160	0	0	531,160
Police department	1,238,000	0	0	1,238,000
Fire department	352,461	0	0	352,461
Highways and streets	269,894	0	0	269,894
Parks and recreation	241,926	0	0	241,926
Garage	48,771	0	0	48,771
Street lighting	110,196	0	0	110,196
Drug fund	0	0	7,688	7,688
Solid Waste	0	371,003	0	371,003
Capital Outlay:				
General government	78,702	0	0	78,702
Police department	93,731	0	0	93,731
Fire department	15,136	0	0	15,136
Highways and streets	1,433,335	0	0	1,433,335
Parks and recreation	9,416	0	0	9,416
Solid Waste	0	11,494	0	11,494
Debt service:				
Principal	178,000	0	0	178,000
Interest	50,665	0	0	50,665
Total Expenditures	<u>\$4,651,393</u>	<u>\$382,497</u>	<u>\$7,688</u>	<u>\$5,041,578</u>
Excess (deficiency) of revenues over expenditures	<u>(505,663)</u>	<u>28,433</u>	<u>6,579</u>	<u>(470,651)</u>
Fund Balance, Beginning of Year	1,736,985	136,275	49,556	1,922,816
Fund Balance, End of Year	<u>\$1,231,322</u>	<u>\$164,708</u>	<u>\$56,135</u>	<u>\$1,452,165</u>

See accompanying notes to financial statements.

**CITY OF MCKENZIE, TENNESSEE**

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance  
of Governmental Funds to the Statement of Activities**

**For the Year Ended June 30, 2015**

Net change in fund balances - total governmental funds:	\$ (470,651)
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Amounts reported for governmental activities in the statement of net position are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Acquisition of capital assets	1,641,814
Depreciation expense	(423,586)

Revenues in the statement of activities that do not provide current financial resources are reported as revenues in the funds.	100,874
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Reduction of accrued landfill closure costs	22,343
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Expenses reported in the statement of activities that affect accrued liabilities that are not reported as expenditures in the governmental funds

Change in pension plan accrual	3,557
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Expenses reported in the governmental funds that reduce long-term debt in the Statement of Net Position

Principal payments	<u>178,000</u>
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Change in net position of governmental activities	\$ <u><u>1,052,351</u></u>
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See accompanying notes to financial statements.



CITY OF MCKENZIE, TENNESSEE

Statement of Net Position

Proprietary (Water and Sewer) Fund

June 30, 2015

Assets and Deferred Outflows

Current Assets:

Cash and cash equivalents	\$2,236,112
Certificate of deposit	100,000
Accounts receivable, net of allowance of \$155,650	156,899
Prepaid expenses	9,099
Total Current Assets	<u>2,502,110</u>

Capital Assets:

Utility plant in service	18,170,282
Less accumulated depreciation	<u>(11,668,990)</u>
Total Capital Assets, Net	<u>6,501,292</u>

Deferred Outflows - pension	<u>84,308</u>
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Total Assets and Deferred Outflows	<u><u>\$9,087,710</u></u>
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Liabilities

Current Liabilities (payable from current assets):

Accounts payable	\$18,634
Accrued expenses	28,626
Due to other funds	<u>107,376</u>
Total Current Liabilities (payable from current assets)	<u>154,636</u>

Other Liabilities:

Customer deposits	<u>91,995</u>
Total Other Liabilities	<u>91,995</u>

Deferred Inflows - pension	<u>30,685</u>
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Net Pension Position	<u>104,092</u>
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Total Liabilities	<u><u>\$381,408</u></u>
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Net Position:

Investment in Capital Assets	6,501,292
Unrestricted	<u>2,205,010</u>
Total Net Position	<u><u>\$8,706,302</u></u>

The notes accompanying the financial statements are an integral part of these financial statements.

**CITY OF MCKENZIE, TENNESSEE**

**Statement of Revenues, Expenses  
and Changes in Net Position**

**Proprietary (Water and Sewer) Fund**

**For the Year Ended June 30, 2015**

Operating Revenues:	
Metered sales	1,369,857
Tap and service fees	99,749
Other income	<u>6,438</u>
Total Operating Revenues	<u><u>1,476,044</u></u>
Operating Expenses:	
Salaries	268,352
Payroll taxes	25,468
Employee benefits	116,956
Rent	4,800
Dues and fees	3,992
Utilities	200,197
Professional services	26,904
Repair and maintenance	169,369
Supplies	122,352
Insurance	53,243
Vehicle expenses	17,269
Depreciation	471,389
Miscellaneous	<u>1,481</u>
Total Operating Expenses	<u><u>1,481,772</u></u>
Operating income (loss)	<u>(5,728)</u>
Nonoperating Revenues (Expenses):	
Rental income	18,521
Interest income	<u>3,084</u>
Total Nonoperating Revenues (Expenses)	<u><u>21,605</u></u>
Capital contributions	<u>39,755</u>
Net change in Net Position	<u>55,632</u>
Net Position, July 1, 2014	<u>8,704,723</u>
Restatement	(54,053)
Net Position, July 1, 2014, as restated	8,650,670
Net Position, June 30, 2015	<u><u>8,706,302</u></u>

The notes accompanying the financial statements are an integral part of these financial statements.

**CITY OF MCKENZIE, TENNESSEE**

**Statement of Cash Flows**

**Proprietary Fund Type**

**Water and Sewer Fund**

**For the Year Ended June 30, 2015**

Cash Flows from Operating Activities:	
Cash received from customers	1,483,851
Cash paid to suppliers	(545,647)
Cash paid to employees	(410,776)
Net Cash Provided (Used) by Operating Activities	<u>527,428</u>
Cash Flows from Capital and Related Financing Activities:	
Purchase of capital assets	(231,624)
Capital contributions	39,755
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(191,869)</u>
Cash Flows from Investing Activities:	
Interest received	3,084
Net Cash Flows Provided (Used) from Investing activities	<u>3,084</u>
Net Change in Cash	338,643
Cash and Cash Equivalents, July 1, 2014	<u>1,897,469</u>
Cash and Cash Equivalents, June 30, 2015	<u>2,236,112</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating income (loss)	(5,728)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Other income	18,521
Depreciation	471,389
Change in assets (increase) decrease:	
Receivables	7,807
Due from other funds	5,445
Prepaid expenses	(1,349)
Deferred outflows	(84,308)
Change in liabilities increase (decrease):	
Accounts payable	9,320
Accrued expenses	3,074
Customer deposits	1,265
Deferred inflows	30,685
Net pension position	50,039
Due to other funds	21,268
Net Cash Provided (Used) by Operating Activities	<u>527,428</u>

See accompanying notes to financial statements.

## CITY OF MCKENZIE, TENNESSEE

Statement of Revenues, Expenditures  
and Changes in Fund Balance - Budget (GAAP Basis) and Actual

## General Fund

For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Revenues:				
Taxes:				
Property taxes	\$701,000	\$701,000	\$655,140	(45,860)
Public utility taxes	115,500	115,500	121,782	6,282
Business taxes	72,000	72,000	79,537	7,537
Wholesale beer taxes	186,000	186,000	185,827	(173)
Local sales tax - debt service	240,900	42,500	40,464	(2,036)
Local sales tax	824,700	824,700	794,688	(30,012)
Hotel/Motel tax	20,000	20,000	21,854	1,854
Liquor restocking fee	50,000	50,000	45,872	(4,128)
Penalty and interest	8,000	8,000	6,007	(1,993)
Total Taxes	2,218,100	2,019,700	1,951,171	(68,529)
Intergovernmental:				
Corporate excise	17,000	17,000	30,556	13,556
State sales tax	385,000	385,000	400,336	15,336
Grants	1,535,835	1,535,835	1,095,301	(440,534)
State beer tax	2,500	2,500	2,540	40
State income tax	14,500	14,500	37,323	22,823
Mixed Drink tax	3,200	3,200	3,558	358
TVA in lieu of tax	58,500	58,500	61,544	3,044
State special petroleum taxes	10,800	10,800	10,835	35
Gasoline .03 tax	30,000	30,000	28,448	(1,552)
Gasoline 1989 tax	16,000	16,000	15,328	(672)
Gasoline and motor fuel	96,000	96,000	95,470	(530)
Total Intergovernmental Revenue	2,169,335	2,169,335	1,781,239	(388,096)
Permits and Licenses:				
City stickers	0	0	811	811
Permits	11,750	11,750	13,550	1,800
Total Permits and Licenses	11,750	11,750	14,361	2,611
Fines:				
City court	225,000	224,500	220,511	(3,989)
Total Fines	225,000	224,500	220,511	(3,989)
Charges for services:				
Driving school	45,000	45,000	38,450	(6,550)
Fire protection	5,000	5,000	3,500	(1,500)
Rural fire contracts	25,000	25,000	26,880	1,880
Police reimbursement	10,200	10,200	10,200	0
Park revenue - collections	1,000	1,000	325	(675)
Agreements	27,000	27,000	27,000	0
Total Charges for services	113,200	113,200	106,355	(6,845)
Miscellaneous:				
Interest income	700	1,100	1,017	(83)
Rent	12,650	12,650	14,950	2,300
Insurance proceeds	15,000	15,000	16,819	1,819
Donations	7,500	7,500	6,262	(1,238)
Sale of fixed assets	10,000	10,000	4,974	(5,026)
Tourism and events projects	15,000	15,000	11,719	(3,281)
Dare program contribution	5,000	5,000	1,148	(3,852)
Miscellaneous	25,000	25,500	15,204	(10,296)
Total Miscellaneous	90,850	91,750	72,093	(19,657)
Total Revenues	4,828,235	4,630,235	4,145,730	(484,505)

The notes accompanying the financial statements are an integral part of these financial statements.

**CITY OF McKENZIE, TENNESSEE**

**Statement of Revenues, Expenditures  
and Changes in Fund Balance - Budget (GAAP Basis) and Actual, Continued**

**General Fund**

**For the Year Ended June 30, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Budget</u>
Expenditures:				
General Government:				
Current:				
Salaries	203,500	228,000	221,020	(6,980)
Payroll taxes	19,000	19,000	14,580	(4,420)
Employee benefits	48,800	48,800	47,649	(1,151)
Travel & registration	16,000	16,000	13,445	(2,555)
Utilities	23,000	23,000	25,146	2,146
Professional services	85,200	64,200	63,752	(448)
Maintenance and repairs	44,300	44,300	41,753	(2,547)
Office expense	12,000	12,000	11,274	(726)
Insurance	10,000	10,000	8,334	(1,666)
Advertising	3,500	3,500	3,424	(76)
Supplies	12,500	12,500	12,733	233
Public affairs	3,500	3,500	3,200	(300)
Dues	6,500	4,000	3,270	(730)
Grant expenses	331,500	331,500	0	(331,500)
Senior citizens	8,500	8,500	8,030	(470)
Tourism	33,000	33,000	42,065	9,065
Miscellaneous	15,300	14,300	11,485	(2,815)
	<u>876,100</u>	<u>876,100</u>	<u>531,160</u>	<u>(344,940)</u>
Debt service	433,500	433,500	228,665	(204,835)
Capital outlay	25,000	25,000	78,702	53,702
Total General Government	<u>1,334,600</u>	<u>1,334,600</u>	<u>838,527</u>	<u>(496,073)</u>
Public Safety:				
Police department:				
Current:				
Salaries	786,100	786,100	785,254	(846)
Payroll taxes	60,100	60,100	55,653	(4,447)
Employee benefits	224,500	224,500	220,533	(3,967)
Prison board	1,000	1,000	825	(175)
Dare Program/ School services	5,000	5,000	846	(4,154)
Supplies	36,000	36,000	14,634	(21,366)
Training	2,000	2,000	1,180	(820)
Travel and registration	12,600	12,600	8,729	(3,871)
Contract services	20,800	20,800	11,401	(9,399)
Utilities	18,500	18,500	15,876	(2,624)
Vehicles expenses	43,500	43,500	33,900	(9,600)
Maintenance and repair	21,000	21,000	19,847	(1,153)
Insurance	46,000	46,000	62,451	16,451
Uniforms	8,000	8,000	6,346	(1,654)
Miscellaneous	1,200	1,200	525	(675)
	<u>1,286,300</u>	<u>1,286,300</u>	<u>1,238,000</u>	<u>(48,300)</u>
Capital outlay	36,000	36,000	93,731	57,731
Total Police department	<u>1,322,300</u>	<u>1,322,300</u>	<u>1,331,731</u>	<u>9,431</u>

The notes accompanying the financial statements are an integral part of these financial statements.

**CITY OF McKENZIE, TENNESSEE**

**Statement of Revenues, Expenditures  
and Changes in Fund Balance - Budget (GAAP Basis) and Actual, Continued**

**General Fund**

**For the Year Ended June 30, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Budget</u>
Expenditures:				
Fire department				
Current:				
Salaries	173,500	173,500	163,365	(10,135)
Employee benefits	61,800	61,800	72,284	10,484
Volunteer firemen	22,000	22,000	18,655	(3,345)
Training	3,500	3,500	1,074	(2,426)
Utilities	33,700	33,700	40,868	7,168
Supplies	9,900	9,900	9,791	(109)
Uniforms	1,500	1,500	1,693	193
Repair and maintenance	13,000	13,000	14,020	1,020
Vehicle expense	6,500	6,500	4,832	(1,668)
Insurance	25,000	25,000	23,309	(1,691)
Other	2,500	2,500	2,570	70
	<u>352,900</u>	<u>352,900</u>	<u>352,461</u>	<u>(439)</u>
Capital outlay	10,000	10,000	15,136	5,136
Total Fire department	<u>362,900</u>	<u>362,900</u>	<u>367,597</u>	<u>4,697</u>
 Total Public Safety	 <u>1,685,200</u>	 <u>1,685,200</u>	 <u>1,699,328</u>	 <u>14,128</u>
Street and Highway department:				
Current:				
Salaries	174,400	174,400	128,983	(45,417)
Employee benefits	44,100	44,100	48,997	4,897
Utilities	7,800	7,800	6,631	(1,169)
Vehicle expense	26,000	26,000	18,027	(7,973)
Maintenance and supplies	49,900	49,900	40,710	(9,190)
Uniforms	1,000	1,000	698	(302)
Insurance	22,000	22,000	24,555	2,555
Miscellaneous	4,700	4,700	1,293	(3,407)
	<u>329,900</u>	<u>329,900</u>	<u>269,894</u>	<u>(60,006)</u>
Capital outlay	1,565,935	1,565,935	1,433,335	(132,600)
Street and Highway department	<u>1,895,835</u>	<u>1,895,835</u>	<u>1,703,229</u>	<u>(192,606)</u>

The notes accompanying the financial statements are an integral part of these financial statements.

**CITY OF McKENZIE, TENNESSEE**

**Statement of Revenues, Expenditures  
and Changes in Fund Balance - Budget (GAAP Basis) and Actual, Continued**

**General Fund**

**For the Year Ended June 30, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Budget</u>
Parks and Recreation:				
Current:				
Salaries	140,000	140,000	116,382	(23,618)
Employee benefits	34,500	34,500	41,936	7,436
Vehicle expense	10,500	10,500	5,254	(5,246)
Utilities	14,800	14,800	15,001	201
Maintenance and supplies	36,700	36,700	36,735	35
July 4th	10,000	10,000	11,355	1,355
Insurance	10,000	10,000	10,336	336
Other	4,500	4,500	4,927	427
	<u>261,000</u>	<u>261,000</u>	<u>241,926</u>	<u>(19,074)</u>
Capital outlay	20,000	20,000	9,416	(10,584)
Total Parks and Recreation	<u>281,000</u>	<u>281,000</u>	<u>251,342</u>	<u>(29,658)</u>
City Garage:				
Current:				
Salaries	30,200	30,200	27,800	(2,400)
Employee benefits	9,100	9,100	11,251	2,151
Insurance	2,500	2,500	2,915	415
Utilities	5,500	5,500	4,614	(886)
Maintenance and supplies	3,300	3,300	1,113	(2,187)
Vehicle expenses	2,600	2,600	1,078	(1,522)
Other	200	200	0	(200)
	<u>53,400</u>	<u>53,400</u>	<u>48,771</u>	<u>(4,629)</u>
Capital outlay	1,000	1,000	0	(1,000)
Total City Garage	<u>54,400</u>	<u>54,400</u>	<u>48,771</u>	<u>(5,629)</u>
Street Lighting:				
Current:				
Utilities	105,000	105,000	109,884	4,884
Operating supplies	1,000	1,000	312	(688)
Other	0	0	0	0
	<u>106,000</u>	<u>106,000</u>	<u>110,196</u>	<u>4,196</u>
Capital outlay	0	0	0	0
Total Street Lighting	<u>106,000</u>	<u>106,000</u>	<u>110,196</u>	<u>4,196</u>
Total Expenditures	<u>5,357,035</u>	<u>5,357,035</u>	<u>4,651,393</u>	<u>(705,642)</u>
Excess (deficiency) of Revenues over Expenditures	(528,800)	(726,800)	(505,663)	221,137
Fund Balance, July 1, 2014	1,736,985	1,736,985	1,736,985	0
Fund Balance, June 30, 2015	<u>\$1,208,185</u>	<u>\$1,010,185</u>	<u>\$1,231,322</u>	<u>\$221,137</u>

The notes accompanying the financial statements are an integral part of these financial statements.

**CITY OF MCKENZIE, TENNESSEE**

**Statement of Revenues, Expenditures  
and Changes in Fund Balance - Budget (GAAP Basis) and Actual**

**Solid Waste Fund**

**For the Year Ended June 30, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Budget</u>
Revenues:				
Sanitation charges	\$425,000	\$425,000	\$410,699	(14,301)
Miscellaneous:				
Interest	<u>200</u>	<u>200</u>	<u>231</u>	<u>31</u>
Total Revenues	<u>425,200</u>	<u>425,200</u>	<u>410,930</u>	<u>(14,270)</u>
Expenditures:				
Personnel costs	38,800	38,800	34,424	(4,376)
Employee benefits	9,200	9,200	11,809	2,609
Insurance	4,000	4,000	4,423	423
Supplies and maintenance	3,300	3,300	9,615	6,315
Landfill	9,000	9,000	0	(9,000)
Vehicle expense	42,000	42,000	9,330	(32,670)
Contract services	293,600	293,600	300,340	6,740
Miscellaneous	<u>1,100</u>	<u>1,100</u>	<u>1,062</u>	<u>(38)</u>
	401,000	401,000	371,003	(29,997)
Capital Outlay	<u>15,000</u>	<u>15,000</u>	<u>11,494</u>	<u>(3,506)</u>
Total Expenditures	<u>416,000</u>	<u>416,000</u>	<u>382,497</u>	<u>(33,503)</u>
Excess (deficiency) of revenues over expenditures	9,200	9,200	28,433	(19,233)
Fund Balance, July 1, 2014	<u>136,275</u>	<u>136,275</u>	<u>136,275</u>	<u>-</u>
Fund Balance, June 30, 2015	<u><u>145,475</u></u>	<u><u>145,475</u></u>	<u><u>164,708</u></u>	<u><u>19,233</u></u>

The notes accompanying the financial statements are an integral part of these financial statements.



**CITY OF MCKENZIE, TENNESSEE**

**Statement of Revenues, Expenditures  
and Changes in Fund Balance - Budget (GAAP Basis) and Actual**

**Drug Fund**

**For the Year Ended June 30, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Budget</u>
Revenues:				
Fines	\$23,000	\$23,000	\$13,969	(9,031)
Sale of seized items	15,000	15,000	0	(15,000)
Donations	5,000	5,000	0	(5,000)
Other	<u>2,050</u>	<u>2,050</u>	<u>298</u>	<u>(1,752)</u>
Total Revenues	<u>45,050</u>	<u>45,050</u>	<u>14,267</u>	<u>(30,783)</u>
Expenditures:				
Supplies	38,500	38,500	7,688	(30,812)
Donations	4,000	4,000	0	(4,000)
Capital Outlay	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenditures	<u>42,500</u>	<u>42,500</u>	<u>7,688</u>	<u>(34,812)</u>
Excess (deficiency) of revenues over expenditures	2,550	2,550	6,579	(4,029)
Fund Balance, July 1, 2014	<u>49,556</u>	<u>49,556</u>	<u>49,556</u>	<u>-</u>
Fund Balance, June 30, 2015	<u><u>\$52,106</u></u>	<u><u>\$52,106</u></u>	<u><u>56,135</u></u>	<u><u>4,029</u></u>

The notes accompanying the financial statements are an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

# CITY OF MCKENZIE, TENNESSEE

## Notes to Financial Statements

June 30, 2015

### **(1) Summary of Significant Accounting Policies**

The City of McKenzie, Tennessee, was incorporated in the year 1923. The City operates under a Mayor-Council form of government. The City provides the following services, as authorized by its charter and duly passed ordinances: public safety (Police and Fire), water and sewerage, streets, sanitation, recreations, public improvements, planning and zoning, and general administrative services. The accounting policies of the City of McKenzie, Tennessee conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

#### Reporting Entity:

In evaluating the City as a reporting entity, management follows all applicable GASB Statements and has addressed all potential component units (traditionally separate reporting entities) for which the City may be financially accountable and, as such, should be included within the City's financial statements. The City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit or to impose specific financial burden on the City. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The City has no component units at yearend.

#### Accounting Pronouncements:

Effective July 1, 2003, the City adopted GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments: Omnibus, an amendment of GASB Statements No. 21 and 34, Statement No. 38, Certain Financial Statement Note Disclosures and Interpretation No. 6, Recognition and measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements. The requirements of these statements represent a significant change in the financial reporting model used by the City. The financial statements now include government-wide financial statements prepared on the accrual basis of accounting and the economic measurement focus for all funds. The fund financial statements present information for individual major funds rather than by fund type. Nonmajor funds are presented in one column. Other significant changes include the reporting of capital assets, infrastructure and depreciation, the elimination of account groups, and the inclusion of management's discussion and analysis. The government-wide financial statements present the City's programs between business-type and governmental activities.

## CITY OF MCKENZIE, TENNESSEE

### Notes to Financial Statements

June 30, 2015

#### **(1) Summary of Significant Accounting Policies, Continued**

##### Government -Wide and Fund Financial Statements

The Government-wide financial statements, the statement of net position and the statement of changes in net position, report information on all of the nonfiduciary activities of the primary government and its component units. For the most part the effect of the interfund activity has been removed from these statements. Government activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (i) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and (ii) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

##### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund revenues are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they become both measurable and collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers property taxes and most governmental revenues as available if received within 60 days of years end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Property taxes, state shared revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period using the criteria specified in the paragraph above. All other revenue items are considered to be measurable and available only when cash is received by the government.

# CITY OF MCKENZIE, TENNESSEE

## Notes to Financial Statements

June 30, 2015

### (1) Summary of Significant Accounting Policies, Continued

The government reports the following major funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources of the general government except those required to be accounted for in another fund.

Drug Fund - To account for drug fines received and usage of those monies to further drug investigations.

Solid Waste Fund - To account for the receipt and payment of the City's Solid Waste operations.

The government reports the following major proprietary funds:

The Water and Sewer Fund is used to account for water and sewer operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments- in-lieu taxes and other charges between the government's utilities and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include (i) charges to customers or applicants for goods, services, or privileges provided, (ii) operating grants and contributions, and (iii) capital grants and contributions. General revenues include all taxes and internally dedicated resources.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the various utility funds are charges to customers for sales and services. The Utility Fund also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. When unrestricted funds are used the City uses committed, assigned then unassigned funds.

## CITY OF MCKENZIE, TENNESSEE

### Notes to Financial Statements

#### **(1) Summary of Significant Accounting Policies, Continued**

##### Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has no items that qualify for reporting in this category.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has items that qualify for reporting in this category. Accordingly, the items are reported in the government-wide Statement of Net Position and the governmental funds balance sheet. These revenues are from the following sources: current and delinquent property taxes and various receivables for intergovernmental shared revenues, which do not meet the availability criteria in governmental funds. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

##### Restricted Assets

Certain assets of the City, as well as certain resources set aside for their repayment, are classified as restricted assets on their respective balance sheets because they are maintained in separate bank accounts and their use is either limited by applicable bond covenants or represent proceeds from bond issues that are restricted for use in construction.

##### Receivables and Payables

Activity between funds that are representative of lending/ borrowing arrangements outstanding at the end of the fiscal year are referred to as either due from/ due to other funds (i.e. the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available resources.

All trade receivables are shown net of an allowance for uncollectible, if applicable.

##### Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

## CITY OF MCKENZIE, TENNESSEE

### Notes to Financial Statements

#### (1) Summary of Significant Accounting Policies, Continued

##### Property Tax

The City's property tax is billed each October 1 on the assessed value listed as of the prior February 28 for all real and personal property located in the City's legal boundaries. All City taxes on real estate are declared to be a lien on such realty from January 1 of the year assessments are made. Taxes uncollected by April 1<sup>st</sup> of the 2<sup>nd</sup> year are submitted to the Chancery Court for collection. Tax liens become perfected at the time the court enters judgment. Any receivables at year end represent delinquent taxes or deferred revenue.

Assessed values are established by the State of Tennessee at the following rates of appraised market value:

Public Utility Property	55%
Industrial and Commercial Property	
- Real	40%
- Personal	30%
Farm and Residential Property	25%

Taxes were levied at a rate of \$1.11 per \$100 of assessed valuation for the fiscal year ended June 30, 2015. Payments may be made during the period from October 1 through February 28. Current tax collections of \$625,153 for the fiscal year ended June 30, 2015 were approximately 89 percent of the tax levy.

##### Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets consisting of certain improvements other than buildings, including roads, bridges, streets and sidewalks, and drainage systems are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an individual cost of \$250 and an estimated useful life in excess of three years. All fixed assets are valued at historical cost or estimated useful life in excess of three years. All fixed assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Depreciation is provided over the estimated useful lives using the straight line method.

The estimated useful lives are as follows:

Infrastructure	15-20 years
Buildings	25-30 years
Utility Plant in Service	40-50 years
Furniture and Equipment	5-7 years

##### Inventory

Inventory consists of gasoline and is valued at the lower of cost, using the First-In First-Out method, or market.

# CITY OF MCKENZIE, TENNESSEE

## Notes to Financial Statements

June 30, 2015

### (1) Summary of Significant Accounting Policies, Continued

#### Compensated Absences

The City has accrued a liability for unused sick and vacation pay which is earned, but not taken by City employees.

	<u>7/01/2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/2015</u>
Governmental funds	46,172	-	4,724	41,448
Enterprise funds	13,996	69	-	14,065

#### Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Formal budgets are adopted and approved by Council vote on an annual basis for the General, Special Revenue Funds and Enterprise Funds. These budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- b. The City Council approves, by ordinance, total budget appropriations by department only. The City Recorder is authorized to transfer budget amounts between line items within each department; however, any revisions that alter the total appropriations of any fund must be approved by the City Council.
- c. The budget amounts shown in the financial statements are the final authorized amounts as amended during the year.

During the year the City exceeded the following departmental budgets:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Police department	1,322,300	1,331,731	9,431
Fire department	362,900	367,597	4,697
Street lighting	106,000	110,196	4,196

#### Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds and are presented in the accompanying financial statements as other assets. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.



## CITY OF MCKENZIE, TENNESSEE

### Notes to Financial Statements

#### (1) Summary of Significant Accounting Policies, Continued

##### Cash and Cash Equivalents

Cash and cash equivalents consist primarily of savings accounts, certificates of deposit with original maturities three months or less.

##### Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial instruments that potentially subject the City to significant concentrations of credit risk consist principally of cash and accounts receivable. The City places its cash with federally-insured financial institutions, institutions participating in the State collateral pool. With respect to accounts receivable, credit risk is dispersed across a large number of customers concentrated within one area of service.

##### Fund Balance

The City implemented GASB 54 which addresses issues related to how fund balances are reported. Fund balances are now reported in the following manner:

Nonspendable fund balances – amounts that are not in a spendable form, Restricted fund balance – amounts constrained to specific purposes by their providers, provisions, or by enabling legislation, Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint, Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority, Unassigned fund balance – amounts that are available for any purpose; these amounts are reported only in the general fund.

Only by Board approval (via ordinance) can fund balance amounts be classified as committed or assigned. Board approval (via ordinance) is required to establish, modify or rescind a fund balance requirement.

##### Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of McKenzie's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from McKenzie's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

## CITY OF MCKENZIE, TENNESSEE

### Notes to Financial Statements

June 30, 2015

#### (2) Cash and Cash Equivalents

The City is authorized to invest funds in Federal treasury bills and notes, State of Tennessee Local Government Investment Pool and financial institution demand deposit accounts and certificates of deposit. During the year, the City invested funds that were not immediately needed in certificates of deposits, savings accounts and investments in the State of Tennessee Local Government Investment Pool. The City has deposit policies to minimize custodial credit risks. All deposits with financial institutions must be secured by one of two methods. One method involves financial institutions that participate in the bank collateral pool administered by the state treasurer. Participating banks determine the aggregate balance of their public fund accounts for the State of Tennessee and its political subdivisions. The amount of collateral required to secure these public deposits must equal at least 105 percent of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the state treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

For deposits with financial institutions that do not participate in the bank collateral pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the city. The City has deposit policies to minimize custodial credit risks. The City's deposits with financial institutions are fully insured or collateralized by securities held in the City's name.

#### (3) Accounts Receivable

Accounts receivable at June 30, 2015, consist of the following:

<u>Fund</u>	<u>Other Government</u>	<u>Property Taxes</u>	<u>Customer Accounts</u>	<u>Total</u>
General Fund	\$ 342,776	809,602	-	1,152,378
Enterprise Fund	-	-	312,549	312,549
Less allowance for doubtful accounts	-	-	(155,650)	(155,650)
Total	<u>\$ 342,776</u>	<u>809,602</u>	<u>156,899</u>	<u>1,309,277</u>

# CITY OF MCKENZIE, TENNESSEE

## Notes to Financial Statements

June 30, 2015

### (4) Capital Assets

A summary of changes in general capital assets as presented in the governmental activities column of the government-wide financial statement is as follows:

	Balance July 1, 2014	<u>Additions</u>	<u>Deletions</u>	Balance June 30, 2015
Land and land improvements	\$ 1,909,876	-	-	1,909,876
Buildings and Improvements	1,831,454	83,515	-	1,914,969
Infrastructure	5,148,103	155,961	-	5,304,064
Vehicles	1,252,196	64,394	-	1,316,590
Other assets	225,451	1,286,163	-	1,511,614
Machinery and equipment	<u>1,369,427</u>	<u>51,781</u>	-	<u>1,421,208</u>
Total	<u>\$11,736,507</u>	<u>1,641,814</u>	<u>-</u>	<u>13,378,321</u>
Accumulated depreciation	(7,719,742)			(8,143,328)
Capital assets - net	<u>4,016,765</u>			<u>5,234,993</u>

All assets, except land with a cost of \$960,184, are being depreciated.

Depreciation expense was charged to functions/programs of the primary government as follows:

General Fund:

General government administration	64,900
Police department	32,168
Fire department	29,519
Highways and Streets	237,438
Parks and recreation	36,852
Garage	2,562
Solid Waste	<u>20,147</u>
Total	<u>423,586</u>

## CITY OF MCKENZIE, TENNESSEE

### Notes to Financial Statements

June 30, 2015

#### (4) Capital Assets, Continued

A summary of changes in Proprietary (Water and Sewer) Department capital assets and related accumulated depreciation follows:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Land and easements	\$ 12,550	-	-	12,550
Sewer plant	10,952,666	112,864	-	11,065,530
Water Plant	<u>6,973,442</u>	<u>118,760</u>	<u>-</u>	<u>7,092,202</u>
	<u>17,938,658</u>	<u>231,624</u>	<u>-</u>	<u>18,170,282</u>
Less accumulated depreciation	(11,197,601)			(11,668,990)
Net plant in service	\$ <u>6,741,057</u>			<u>6,501,292</u>

All assets, except land of \$12,550, are being depreciated. Depreciation expense was \$471,389 in 2015.

#### (5) Long-Term Debt Payable and Other Obligations Payable

General long-term debt includes two bond issues, a note payable, a lease payable, and an estimate of landfill closure costs. The two bond issues consist of the following:

1) General Obligation Bonds – These bonds have an annual interest rate of three and one-eighth percent (3.125%). Interest is payable semi-annually on March 1 and September 1. This issue was used to pay off the general obligation bonds with Sentinel from 1997 during fiscal year ended June 30, 2003. These bonds are 42% general long-term debt and 58% water and sewer.

2) The note payable is a loan from the Tennessee Municipal Bond Fund. The total loan was for \$1,300,000. The principal and interest will be repaid over 25 years with annual payments made in May of each fiscal year. The interest rate on the loan is 5.00%.

3) The City borrowed \$98,845 to purchase the Depot in the City. The loan will be repaid over two years.

4) The City borrowed \$700,000 for future infrastructure projects, the loan is payable in annual installments ranging from \$48,000-\$70,000 over the next twelve years. The interest rate is 3.44%.

5) The City closed its landfill as of June 30, 1992. At that time, the City did not have information available to accrue closure and maintained costs connected with closing the landfill. During the year ended June 30, 1996, an original estimate of those costs became available. An updated estimate was obtained during 2005, resulting in a \$125,901 adjustment. If the costs had been available before the landfill closed, recognition of the expenditures would have been made over the remaining life of the landfill. Since they were not available and the Solid Waste Fund is a special revenue fund, the liability is reflected in general long-term debt.

# CITY OF MCKENZIE, TENNESSEE

## Notes to Financial Statements

### (5) Long-Term Debt Payable and Other Obligations Payable, Continued

The following schedule reflects the changes in General long-term debt during the fiscal year 2015.

	Balance July 1, 2014	<u>Additions</u>	<u>Retirements</u>	Balance June 30, 2015
2003 Issue	365,000	-	(45,000)	320,000
Note payable - TMBF	786,000	-	(52,000)	734,000
Bank loan – Building	65,845	-	(33,000)	32,845
Note payable - TMBF	700,000	-	(48,000)	652,000
Landfill Closure costs	<u>505,068</u>	<u>-</u>	<u>(22,343)</u>	<u>482,725</u>
Total	<u>2,421,913</u>	<u>-</u>	<u>(200,343)</u>	<u>2,221,570</u>

Principal and interest requirements to maturity on all outstanding bonds, loans and obligations as of June 30, 2015, are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2016	186,845	63,985
2017	158,000	57,142
2018	167,000	49,951
2019	171,000	42,400
2020	180,000	34,525
2021-2025	725,000	78,175
2026	<u>151,000</u>	<u>3,358</u>
Total	<u>1,738,845</u>	<u>329,536</u>

### (6) Interfund Transactions

Interfund receivables and payables at June 30, 2015 were as follows:

<u>Fund</u>	Due <u>From</u>	Due <u>To</u>
General Fund	99,608	-
Solid Waste	102,674	94,906
Utility Fund	<u>-</u>	<u>107,376</u>
Total	<u>202,282</u>	<u>202,282</u>

The Solid Waste Fund has a due from the Utility fund as the Utility fund collects customer payments and remits these to the Solid Waste each month. The other above balances General Fund/Solid Waste Fund represents shared purchases made between these two funds that were made by the General Fund. The City pays these balances off in the following month.

# CITY OF MCKENZIE, TENNESSEE

## Notes to Financial Statements

June 30, 2015

### (7) Pension Plan

#### **General Information about the Pension Plan**

*Plan description.* Employees of McKenzie are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at [www.treasury.tn.gov/tcrs](http://www.treasury.tn.gov/tcrs).

*Benefits provided.* Tennessee Code Annotated Title 8, Chapter 34-37 established the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2<sup>nd</sup> of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

*Employees covered by benefit terms.* At the measurement date of June 30, 2014, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	9
Inactive employees entitled to but not yet receiving benefits	27
Active employees	<u>47</u>
Total	<u>83</u>

## CITY OF MCKENZIE, TENNESSEE

### Notes to Financial Statements

June 30, 2015

#### (7) Pension Plan, Continued

*Contributions.* Contributions for employees are established in the statutes governing the TCRS and may only be charged by the Tennessee General Assembly. Employees contribute 5 percent of salary. McKenzie makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2015, employer contributions for McKenzie were (\$80,592) based on a rate of (5.03%) percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept McKenzie's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

#### Net Pension Liability (Asset)

McKenzie's net pension liability (asset) was measured as of June 30, 2014, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

*Actuarial assumptions.* The total pension liability as of June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

*Inflation* 3.0 percent

*Salary increases* Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation averaging 4.25 percent.

*Investment rate of return* 7.5 percent, net of pension plan investment expenses, including inflation.

*Cost-of-Living Adjustment* 2.5 percent

Mortality rates were based on actual experience from the June 30, 2012 actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

## CITY OF MCKENZIE, TENNESSEE

### Notes to Financial Statements

June 30, 2015

#### (7) Pension Plan, Continued

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

#### *Long-term Expected*

<u>Asset class</u>	<u>Real Rate of Return</u>	<u>Target Allocation</u>
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real Estate	4.73%	7%
Short-term securities	0.00%	1%
Total		<u>100%</u>

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

*Discount rate.* The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from McKenzie will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.



# CITY OF MCKENZIE, TENNESSEE

## Notes to Financial Statements

### (7) Pension, Continued

#### Changes in the Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a) – (b)
Balance at 6/30/13	\$ 2,298,574	\$ 1,954,023	\$ 344,551
Changes for the year:			
Service cost	115,766		115,766
Interest	177,558		177,558
Differences between expected and actual experience	353,852		353,852
Contributions-employer		88,044	(88,044)
Contributions-employees		80,186	(80,186)
Net investment income		331,293	(331,293)
Benefit payments, including refunds of employee contributions	(93,791)	(93,791)	-
Administrative expense		(1,761)	1,761
Net changes	553,385	403,971	149,414
Balance at 6/30/14	\$ 2,851,959	\$ 2,357,994	\$ 493,965

*Sensitivity of the net pension liability (asset) to changes in the discount rate.* The following presents the net pension liability (asset) of McKenzie calculated using the discount rate of 7.5 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
McKenzie's net pension Liability (asset)	841,909	493,965	202,040

# CITY OF MCKENZIE, TENNESSEE

## Notes to Financial Statements

June 30, 2015

### (7) Pension, Continued

#### **Pension Expense (income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

*Pension income.* For the year ended June 30, 2015, McKenzie recognized pension income of \$73,451.

*Deferred outflows of resources and deferred inflows of resources.* For the year ended June 30, 2015, McKenzie reported deferred outflows or resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and Actual experience	309,620	-
Net difference between projected and Actual earning on pension plan		
Investments	-	145,613
Contributions subsequent to the Measurement date of June 30, 2015	<u>80,592</u>	<u>-</u>
Total	<u>390,212</u>	<u>145,613</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:

2016	7,829
2017	7,829
2018	7,829
2019	7,829
2020	44,232
Thereafter	88,464

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

## **CITY OF MCKENZIE, TENNESSEE**

### **Notes to Financial Statements**

June 30, 2015

#### **(8) Commitments and Contingencies**

##### Litigation:

There are no legal proceedings that are likely to have a material financial impact on the City.

##### Grants:

Amounts received from Grantor agencies are subject to audit and adjustment by Grantor agencies, principally the Federal government. Any disallowed claims including amounts already collected, could become a liability of the applicable fund.

#### **(9) Risk Management**

The City of McKenzie is exposed to various risks to general liability and property and casualty losses. The City has decided it was more economically feasible to join a public entity risk pool as opposed to purchasing commercial insurance for general liability and property and casualty coverage. The City joined TML Insurance Pool which is a public entity risk pool established by the Tennessee Municipal League, an association of member cities. The City pays an annual premium to the TML for its general liability and property and casualty insurance coverage. The creation of the pool provides for it to be self-sustaining through member premiums. The pool reinsures through commercial insurance companies for claims in excess of \$130,000 for each insured event. The City has not had claims in excess of insurance coverage during the last three years.

#### **(10) Restatement – Change in Accounting Principle**

The City implemented GASB Statement 68 and GASB Statement 71 related to the accounting and financial reporting for pension plans and as a result has restated the government-wide financial statements.

# REQUIRED SUPPLEMENTARY INFORMATION

## Schedules of Required Supplementary Information

### Schedule of Changes in McKenzie's Net Pension Liability (Asset) and Related Ratios Based on Participation in the Public Employee Pension Plan of TCRS

Last Fiscal Year ending June 30

	<u>2014</u>
<b>Total pension liability</b>	
Service cost	\$ 115,766
Interest	177,558
Changes in benefit terms	-
Differences between actual & expected experience	353,852
Change of assumptions	-
Benefit payments, including refunds of employee contributions	(93,791)
<b>Net change in total pension liability</b>	553,385
<b>Total pension liability-beginning</b>	2,298,574
<b>Total pension liability-ending (a)</b>	\$ <u>2,851,959</u>
 <b>Plan fiduciary net position</b>	
Contributions-employer	\$ 88,044
Contributions-employee	80,186
Net investment income	331,293
Benefit payments, including refunds of employee contributions	(93,791)
Administrative expense	(1,761)
<b>Net change in plan fiduciary net position</b>	403,971
<b>Plan fiduciary net position-beginning</b>	1,954,023
<b>Plan fiduciary net position-ending (b)</b>	\$ <u>2,357,994</u>
 <b>Net Pension Liability (asset)-ending (a) – (b)</b>	\$ <u>493,965</u>
 <b>Plan fiduciary net position as a percentage of total pension liability</b>	82.68%
 <b>Covered-employee payroll</b>	\$ 1,603,709
 <b>Net pension liability (asset) as a percentage of covered-employee payroll</b>	30.80%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will added to this schedule in future fiscal years until 10 years of information is available.

**CITY OF MCKENZIE, TENNESSEE**

**Schedule of Contributions Based on Participation in the  
Public Employee Pension Plan of TCRS**

**For the Year Ended June 30, 2015**

	<u>2014</u>	<u>2015</u>
Actuarially determined contribution	<u>88,044</u>	<u>80,592</u>
Contributions in relation to the actuarially determined contribution	<u>88,044</u>	<u>80,592</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>
Covered-employee payroll	<u>1,603,709</u>	<u>1,610,583</u>
Contributions as a percentage covered-employee payroll	<u>5.49%</u>	<u>5.03%</u>

**Notes to Schedule**

*Valuation date:* Actuarially determined contribution rates for 2015 were calculated based on the July 1, 2013 actuarial valuation.

*Methods and assumptions used to determine contribution rates:*

Actuarial cost method	Frozen initial liability
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	12 years
Asset valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment Rate of Return	7.5 percent, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of Living Adjustments	2.5 percent

# SUPPLEMENTAL INFORMATION

**CITY OF MCKENZIE, TENNESSEE**

**Capital Assets Used in the Operation of the Governmental Funds**

**Schedule of Changes in Capital Assets - By Type**

**June 30, 2015**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Capital Assets:				
Land and land improvements	\$1,909,876	0	0	\$1,909,876
Infrastructure	5,148,103	155,961	0	5,304,064
Building and improvements	1,831,454	83,515	0	1,914,969
Vehicles	1,252,196	64,394	0	1,316,590
Machinery and equipment	1,369,427	51,781	0	1,421,208
Other assets	<u>225,451</u>	<u>1,286,163</u>	<u>0</u>	<u>1,511,614</u>
Total capital assets	<u><u>\$11,736,507</u></u>	<u><u>1,641,814</u></u>	<u><u>0</u></u>	<u><u>\$13,378,321</u></u>



CITY OF MCKENZIE, TENNESSEE

Capital Assets Used in the Operation of the Governmental Funds

Schedule of Capital Assets - By Function and Activity

June 30, 2015

	<u>Land and Improvements</u>	<u>Buildings and Improvements</u>	<u>Machinery and Equipment</u>	<u>Vehicles</u>	<u>Streets and Improvements</u>	<u>Other</u>	<u>Total</u>
Capital Assets:							
General Government	\$165,473	1,385,880	125,934	17,100	5,767	11,010	1,711,164
Police	0	775	178,826	381,933	0	24,625	586,159
Drug	0	0	22,890	47,593	0	0	70,483
Fire	7,257	8,713	375,985	669,624	0	48,270	1,109,849
Solid Waste	0	50,146	82,283	14,144	0	0	146,573
Streets	265,225	149,787	514,960	153,705	5,093,029	1,416,471	7,593,177
Landfill	73,495	0	0	0	196,740	0	270,235
Garage	0	9,895	18,833	2,500	0	0	31,228
Parks	<u>1,398,426</u>	<u>309,773</u>	<u>101,497</u>	<u>29,991</u>	<u>8,528</u>	<u>11,238</u>	<u>1,859,453</u>
Total capital assets	<u>\$1,909,876</u>	<u>1,914,969</u>	<u>1,421,208</u>	<u>\$1,316,590</u>	<u>\$5,304,064</u>	<u>\$1,511,614</u>	<u>\$13,378,321</u>

**Schedule of Cash and Cash Equivalents and Certificate of Deposits**  
**All Funds**

	Carrying Value
General Fund:	
Demand deposits	\$985,810
Total General Fund	<u>985,810</u>
Solid Waste Fund:	
Demand deposits	185,442
Total Solid Waste Fund	<u>185,442</u>
Drug Fund:	
Demand deposits	56,135
Total Drug Fund	<u>56,135</u>
Water and Sewer Fund:	
Demand deposits	2,236,112
Certificates of deposit	100,000
Total Water and Sewer Fund	<u>2,336,112</u>
Total - All funds	<u>\$3,563,499</u>

# CITY OF MCKENZIE, TENNESSEE

## Schedule of Changes in Property Taxes Receivable

For the Year Ended June 30, 2015

Tax Year	Balance July 1, 2014	Levy	Collections and Changes in Assessment	Balance June 30, 2015
2015	\$ -	703,048	0	703,048
2014	698,516	2,532	625,153	75,895
2013	45,242	0	19,774	25,468
2012	10,983	0	10,281	702
2011	484	0	337	147
2010	469	0	186	283
2009	1,663	0	0	1,663
2008	231	0	0	231
2007	200	0	0	200
2006	1,936	0	0	1,936
2005	29	0	0	29
	<u>\$759,753</u>	<u>705,580</u>	<u>655,731</u>	<u>809,602</u>

Tax Year	Tax Levy	Adjustment and Collections	Outstanding Delinquent Taxes
2015	703,048	0	703,048
2014	701,048	625,153	75,895
2013	698,573	673,105	25,468
2012	701,343	700,641	702
2011	683,963	683,816	147
2010	670,954	670,671	283
2009	667,145	665,482	1,663
2008	671,474	671,243	231
2007	637,008	636,808	200
2006	576,735	574,799	1,936
2005	566,408	566,379	29

All delinquent taxes except for the 2014 year have been turned over to the County for collection.

**CITY OF MCKENZIE, TENNESSEE**

**Schedule of Debt Service Requirements -  
General Obligation Debt**

**June 30, 2015**

	CAPITAL OUTLAY		BONDS- 2003 SERIES		NOTE PAYABLE - TMBF		NOTE PAYABLE - TMBF		TOTALS	TOTALS
<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	32,845	0	50,000	14,857	54,000	26,700	50,000	22,428	186,845	63,985
2017			50,000	12,433	56,000	24,000	52,000	20,709	158,000	57,142
2018			55,000	9,831	59,000	21,200	53,000	18,920	167,000	49,951
2019			55,000	7,053	61,000	18,250	55,000	17,097	171,000	42,400
2020			60,000	4,120	63,000	15,200	57,000	15,205	180,000	34,525
2021			50,000	1,289	66,000	12,050	59,000	13,244	175,000	26,583
2022					69,000	8,750	61,000	11,214	130,000	19,964
2023					72,000	5,300	63,000	9,116	135,000	14,416
2024					75,000	3,700	65,000	6,949	140,000	10,649
2025					78,000	1,850	67,000	4,713	145,000	6,563
2026					81,000	950	70,000	2,408	151,000	3,358
	<u>\$32,845</u>	<u>\$0</u>	<u>\$320,000</u>	<u>\$49,583</u>	<u>\$734,000</u>	<u>\$137,950</u>	<u>\$652,000</u>	<u>\$142,003</u>	<u>\$1,738,845</u>	<u>\$329,536</u>

**CITY OF MCKENZIE, TENNESSEE**

**Schedule of Insurance Coverage**

**June 30, 2015**

<u>Type of Coverage</u>	<u>Limits</u>
General liability	\$100,000
Employer's liability	1,000,000
Fire damage	85,000
Business auto:	
Liability	100,000
Uninsured motorists	60,000
Injury	130,000
Error or Omissions Injury	100,000
Impounded property	25,000
Workers' compensation	Statutory
Employee dishonesty	100,000
Public official bond	100,000

**CITY OF MCKENZIE, TENNESSEE**

**Schedule of Bonds - Principal Officials**

**June 30, 2015**

<u>Official</u>	<u>Title</u>	<u>Bond</u>
Jill Holland	Mayor	\$100,000
Gene Hale	Vice Mayor	\$100,000
Charles Pruneau	Council member	\$100,000
David Hochreiter	Council member	\$100,000
Kevin Gallimore	Council member	\$100,000
Cassie Allen	Council member	\$100,000
Jessie Townes	Council member	\$100,000
Charlie Beal	City Clerk/Recorder	\$100,000

**CITY OF MCKENZIE, TENNESSEE**

**Schedule of Utility Rates and Information**

**June 30, 2015**

Minimums

<u>Size</u>	<u>Inside City</u> Gallons	<u>Water Minimum</u>	<u>Outside City</u> Gallons	<u>Water Minimum</u>
3/4 inch	2,000	8.13	2,000	12.19
1 inch	2,000	16.14	2,000	22.30
1 1/2 inch	2,000	23.96	2,000	30.25
2 inch	2,000	40.74	2,000	50.41
3 inch	2,000	134.46	2,000	168.08
4 inch	2,000	215.14	2,000	268.92

Rates - Inside City

Rates - Outside City

First 2,000 gallons	See minimum rates above	First 2,000 gallons	See minimum rates above
Next 3,000 gallons	\$3.55 per 1,000 gallons	Next 3,000 gallons	\$4.438 per 1,000 gallons
Next 5,000 gallons	\$4.0435 per 1,000 gallons	Next 5,000 gallons	\$5.042 per 1,000 gallons
Next 5,000 gallons	\$3.630 per 1,000 gallons	Next 5,000 gallons	\$4.537 per 1,000 gallons
Next 10,000 gallons	\$3.228 per 1,000 gallons	Next 10,000 gallons	\$3.918 per 1,000 gallons
Next 25,000 gallons	\$2.824 per 1,000 gallons	Next 25,000 gallons	\$3.531 per 1,000 gallons
Next 950,000 gallons	\$2.422 per 1,000 gallons	Next 950,000 gallons	\$3.030 per 1,000 gallons
Next 1,000,000 gallons	\$2.179 per 1,000 gallons	Next 1,000,000 gallons	\$2.723 per 1,000 gallons
Next 1,000,000 gallons	\$1.936 per 1,000 gallons	Next 1,000,000 gallons	\$2.422 per 1,000 gallons
Next 3,000,000 gallons	\$1.815 per 1,000 gallons	Next 3,000,000 gallons	\$2.2269 per 1,000 gallons

Sewer Charges are 144% of Water Rates

Number of customers at year end (approximate):

Water	2,400
Sewer	1,950

**CITY OF MCKENZIE, TENNESSEE**

**Schedule of Federal and State Financial Assistance**

**For the Year Ended June 30, 2015**

<u>CFDA Number</u>	<u>State Grant Number</u>	<u>Program Name</u>	<u>Grantor Agency</u>	<u>Receivable (Deferred) Balance June 30, 2014</u>	<u>Grant Receipts</u>	<u>Other Receipts</u>	<u>Grant Expenditures</u>	<u>Receivable (Deferred) Balance June 30, 2015</u>
<b>Federal Programs:</b>								
97.039	FEMA1909DRTN	Presidential Declaration FEMA Severe Storms and Flooding	TEMA - Military thru the Department of Homeland Security	<u>\$0</u>	<u>2,064</u>	<u>0</u>	<u>2,064</u>	<u>0</u>
14.228	41112-9110	CDBG - Sewer System	Tennessee Department of Economic and Community Development thru HUD	<u>\$0</u>	<u>39,755</u>	<u>0</u>	<u>39,755</u>	<u>0</u>
14.228	33004-09813	Diaster Recovery CDBG Draniage	Tennessee Department of Economic and Community Development thru HUD	<u>\$0</u>	<u>339,029</u>	<u>0</u>	<u>339,029</u>	<u>0</u>
		Total 14.228 Program		<u>\$0</u>	<u>\$378,784</u>	<u>\$0</u>	<u>\$378,784</u>	<u>\$0</u>
14.219	080041	Webb School/ Walnut Avenue Connector	Tennessee Department of Economic and Community Development thru HUD	<u>\$0</u>	<u>215,542</u>	<u>0</u>	<u>215,542</u>	<u>0</u>
14.219	080135	J. L. Sects Pedestriam Pathway	Tennessee Department of Economic and Community Development thru HUD	<u>\$0</u>	<u>218,933</u>	<u>0</u>	<u>218,933</u>	<u>0</u>
14.219	130067	Realignment of North Waldren	Tennessee Department of Economic and Community Development thru HUD	<u>\$0</u>	<u>314,973</u>	<u>0</u>	<u>314,973</u>	<u>0</u>
		Total 14.219 Program		<u>\$0</u>	<u>\$749,448</u>	<u>\$0</u>	<u>\$749,448</u>	<u>\$0</u>
20.607	Z14GHS223	Police - Highway safety	Tennessee Department of Transportation thru Department of Transportation	<u>\$2,973</u>	<u>7,733</u>	<u>0</u>	<u>4,760</u>	<u>0</u>
Grand Total				<u>2,973</u>	<u>1,138,029</u>	<u>0</u>	<u>1,135,056</u>	<u>0</u>

This schedule prepared on the accrual basis of accounting.





# AWWA Free Water Audit Software: Reporting Worksheet

WAS v5.0  
American Water Works Association  
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Click to access definition  
 Click to add a comment

Water Audit Report for: **McKenzie Water Department (0000421)**  
Reporting Year: **2015** **7/2014 - 6/2015**

Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (n/a or 1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades

All volumes to be entered as: MILLION GALLONS (US) PER YEAR

To select the correct data grading for each input, determine the highest grade where the utility meets or exceeds all criteria for that grade and all grades below it.

## WATER SUPPLIED

Volume from own sources: 9 362.865 MG/Yr  
Water imported: n/a 0.000 MG/Yr  
Water exported: n/a 0.000 MG/Yr

## Master Meter and Supply Error Adjustments

Enter grading in column 'E' and 'J' -----> Pcnt: 5 -0.50% 5 Value: 5 MG/Yr  
 5 5 5 MG/Yr  
 5 5 5 MG/Yr

Enter negative % or value for under-registration  
Enter positive % or value for over-registration

**WATER SUPPLIED:** **364.688** MG/Yr

## AUTHORIZED CONSUMPTION

Billed metered: 9 172.226 MG/Yr  
Billed unmetered: 7 1.042 MG/Yr  
Unbilled metered: 7 22.603 MG/Yr  
Unbilled unmetered: 7 4.559 MG/Yr

Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed

**AUTHORIZED CONSUMPTION:** **200.430** MG/Yr

Click here: for help using option buttons below

Pcnt: 1.25% 1.25% Value: 1.25% MG/Yr

Use buttons to select percentage of water supplied OR value

Pcnt: 0.25% 0.25% Value: 0.25% MG/Yr

5.00% 5.00% 5.00% MG/Yr  
 0.25% 0.25% 0.25% MG/Yr

## WATER LOSSES (Water Supplied - Authorized Consumption)

### Apparent Losses

Unauthorized consumption: 5 0.912 MG/Yr

Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed

Customer metering inaccuracies: 5 10.254 MG/Yr  
Systematic data handling errors: 5 0.431 MG/Yr

Default option selected for Systematic data handling errors - a grading of 5 is applied but not displayed

**Apparent Losses:** **11.596** MG/Yr

### Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: 5 **152.662** MG/Yr

**WATER LOSSES:** **164.259** MG/Yr

## NON-REVENUE WATER

**NON-REVENUE WATER:** **191.420** MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

## SYSTEM DATA

Length of mains: 7 70.8 miles  
Number of active AND inactive service connections: 7 2,208  
Service connection density: 7 31 conn./mile main

Are customer meters typically located at the curbstop or property line? Yes

Average length of customer service line: 5 (length of service line, beyond the property boundary, that is the responsibility of the utility)  
Average length of customer service line has been set to zero and a data grading score of 10 has been applied

Average operating pressure: 5 65.0 psi

## COST DATA

Total annual cost of operating water system: 7 \$811,443 \$/Year  
Customer retail unit cost (applied to Apparent Losses): 7 \$7.15 \$/1000 gallons (US)  
Variable production cost (applied to Real Losses): 7 \$372.43 \$/Million gallons ☐ Use Customer Retail Unit Cost to value real losses

## WATER AUDIT DATA VALIDITY SCORE:

\*\*\* YOUR SCORE IS: 75 out of 100 \*\*\*

A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score

## PRIORITY AREAS FOR ATTENTION:

Based on the information provided, audit accuracy can be improved by addressing the following components:

1: Volume from own sources

2: Customer metering inaccuracies

3: Unauthorized consumption



## AWWA Free Water Audit Software: System Attributes and Performance Indicators

WAS v5.0

American Water Works Association  
Copyright © 2014. All Rights Reserved.Water Audit Report for: **McKenzie Water Department (0000421)**Reporting Year: **2015** **7/2014 - 6/2015**

\*\*\* YOUR WATER AUDIT DATA VALIDITY SCORE IS: 75 out of 100 \*\*\*

### System Attributes:

Apparent Losses:	11.596	MG/Yr
+ Real Losses:	152.662	MG/Yr
= <b>Water Losses:</b>	<b>164.259</b>	MG/Yr

Unavoidable Annual Real Losses (UARL): 16.95 MG/Yr

Annual cost of Apparent Losses: \$82,915

Annual cost of Real Losses: \$56,856

Valued at **Variable Production Cost**

Return to Reporting Worksheet to change this assumption

### Performance Indicators:

Financial:

Non-revenue water as percent by volume of Water Supplied:	52.5%	
Non-revenue water as percent by cost of operating system:	18.5%	Real Losses valued at Variable Production Cost

Operational Efficiency:

Apparent Losses per service connection per day:	14.39	gallons/connection/day
Real Losses per service connection per day:	N/A	gallons/connection/day
Real Losses per length of main per day*:	5,907.53	gallons/mile/day
Real Losses per service connection per day per psi pressure:	N/A	gallons/connection/day/psi

From Above, Real Losses = Current Annual Real Losses (CARL): 152.66 million gallons/year

Infrastructure Leakage Index (ILI) [CARL/UARL]: 9.01

\* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline

**CITY OF MCKENZIE, TENNESSEE**

**Schedule of Federal Expenditures**

**For the Year Ended June 30, 2015**

<u>Program Name</u>	<u>CFDA Number</u>	<u>Expenditures</u>
Infrastructure Improvements	14.228	\$ <u>378,784</u>
Diaster - Presidential Declaration	97.039	\$ <u>2,064</u>
Infrastructure Improvements	14.219	\$ <u>749,448</u>
Highway safety	20.607	\$ <u>4,760</u>
Total		\$ <u>1,135,056</u>

# COMPLIANCE AND INTERNAL CONTROL

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**JOHN R. POOLE, CPA**  
**CERTIFIED PUBLIC ACCOUNTANT**

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**INDEPENDENT AUDITOR'S REPORT ON**  
**INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE**  
**AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS**  
**PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Mayor and Board of Council  
City of McKenzie, Tennessee  
McKenzie, Tennessee

I have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities and each major fund as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of McKenzie's basic financial statements, and have issued a report thereon dated October 31, 2015.

**Internal Control Over Financial Reporting**

In planning and performing my audit of the financial statements, I considered the City of McKenzie's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of McKenzie's internal control. Accordingly, I do not express an opinion on the effectiveness of the City of McKenzie's internal control.

My consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, I identified a deficiency in internal control that I consider to be a material weakness (1995-10C Lack of segregation of Duties).

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiency described below (1995-10C) to be a material weakness.

The material weakness is as follows:

1995-10C Separation of Duties

Due to the limited number of personnel employed by the City, several functions, which ideally should be performed by different individuals, are regularly performed by one or two persons. I recommend that the City strengthen its internal control in cash receipts, cash disbursements, and reconciliation of cash.

Management Response:

Due to the size of the office, a complete separation of duties is not possible. However we are continuing to monitor office responsibilities and segregate duties as needed.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of McKenzie's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of the audit and, accordingly, I do not express such an opinion. The results of the tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Response to Findings**

The City of McKenzie's response to the finding identified in the audit is described above. The City of McKenzie's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

I noted certain matters that I reported to management of the City of McKenzie in a separate letter dated October 31, 2015.

**Purpose of This Report**

The purpose of this report is solely to describe the scope of the testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*John T. Powell, CPA*

October 31, 2015

**JOHN R. POOLE, CPA**  
**CERTIFIED PUBLIC ACCOUNTANT**

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Mayor and Board of Council  
City of McKenzie, Tennessee  
McKenzie, Tennessee

**Report on Compliance for Each Major Federal Program**

I have audited the City of McKenzie's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015. The City's major federal programs are identified in the summary of the auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

**Auditor's Responsibility**

My responsibility is to express an opinion on the compliance for each of City of McKenzie's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted the audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, the audit does not provide a legal determination on the Town's compliance.

**Opinion on Each Major Federal Program**

In my opinion, City of McKenzie complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

**Other Matters**

The results of the auditing procedures disclosed no instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133.

**Report on Internal Control Over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing the audit of compliance, I considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with the types of compliance requirements of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

My consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Purpose of This Report**

The purpose of this report on internal control over compliance is solely to describe the scope of the testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*John R. Poole, CPA*

October 31, 2015



# CITY OF MCKENZIE, TENNESSEE

## Schedule of Findings and Questioned Costs

June 30, 2015

### Section I - Summary of Auditor's Results

#### Financial Statements

The Auditor's Report on the Financial Statements was an unqualified opinion.

Internal control over financial reporting:

Material weakness identified ? No

Significant deficiencies identified ? None reported

Noncompliance material to financial statements noted ? No.

#### Federal Awards

Internal control over major programs:

Material weakness identified ? No.

Significant deficiencies identified ? None reported

The auditor's report on compliance for major programs was unqualified.

There were no audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133.

The Major Programs were:

CFDA 14.228 CDBG, 14.219 Infrastructure Improvements

Type A programs have been distinguished as those programs with expenditures greater than \$300,000.

The CFDA 14.228 and CFDA 14.219 programs met this threshold.

The City of McKenzie was not considered to be a low risk auditee.

### Section II - Financial Statement Findings

There were no findings related to the financial statements which are required to be reported in accordance with Government Auditing Standards.

### Section III - Federal Award Findings and Questioned Costs

There were no findings related to Federal Awards.

The accompanying notes are an integral part of these statements.

**CITY OF MCKENZIE, TENNESSEE**

Schedule of Disposition of Prior Year Comments

June 30, 2015

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
1995 - 10C	Separation of Duties	Continues